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SUBJECT: Estimated Effects of the "Patient Protection and Affordable Care Act" on the Year of Exhaustion for the Part A Trust Fund, Part B Premiums, and Part A and Part B Coinsurance Amounts

In addition to proposals to expand health insurance coverage, the "Patient Protection and Affordable Care Act of 2009" (PPACA) includes numerous provisions that would reduce Medicare costs and one that would increase the Hospital Insurance payroll tax rate for high-income individuals and families. This memorandum describes the estimated impacts of the PPACA, as proposed by Senate Majority Leader Harry Reid on November 18, 2009, on the date of exhaustion for the Medicare Hospital Insurance (Part A) trust fund, on Part B beneficiary premiums, and on the average level of Part A and Part B beneficiary coinsurance.

We estimate that the aggregate net savings to the Part A trust fund under the PPACA would postpone the exhaustion of trust fund assets by 9 years—that is, from 2017 under current law to 2026 under the proposed legislation.

The combination of lower Part A costs and higher tax revenues results in a lower Federal deficit based on budget accounting rules. However, trust fund accounting considers the same lower expenditures and additional revenues as extending the exhaustion date of the Part A trust fund. In practice, the improved Part A financing cannot be simultaneously used to finance other Federal outlays (such as the coverage expansions under the PPACA) and to extend the trust fund, despite the appearance of this result from the respective accounting conventions.

The estimated postponement of asset exhaustion for the Part A trust fund does not reflect the relatively small impact on HI payroll taxes due to economic effects of the legislation or the small increase in administrative expenses under the legislation. As noted in our December 10, 2009 memorandum on the estimated financial and other effects of the PPACA, reductions in Medicare payment updates to Part A providers, based on economy-wide productivity gains, are unlikely to be sustainable on a permanent annual basis. If such reductions were to prove unworkable within the period 2010-2026, then the actual HI savings from these provisions would be less than estimated, and the postponement in the trust fund exhaustion date would be reduced.

The Medicare expenditure reductions under the PPACA would also affect the level of Part B premiums paid by enrollees and the Part A and Part B beneficiary coinsurance amounts. The following table presents these estimated impacts:

CY	Part B Premium Impact (change in monthly premium amount)	Coinsurance Impact (change in yearly per capita amount)	
		Part A	Part B
2010	$0.00	$0	$90
2011	$1.80	–$1	$22
2012	–$3.10	–$4	–$37
2013	–$4.60	–$8	–$55
2014	–$5.30	–$13	–$64
2015	–$7.20	–$18	–$86
2016	–$9.00	–$23	–$108
2017	–$10.80	–$28	–$129
2018	–$12.50	–$34	–$151

As indicated, Part B premiums and average coinsurance payments would initially increase, reflecting higher overall Part B costs under the PPACA in 2010 as a result of the provision to postpone the 21.3-percent reduction in physician payment rates that would be required for 2010 under current law. Thereafter, there would be steadily increasing savings to Part B and associated reductions in the Part B premium and coinsurance averages. Similarly, the Part A savings under the PPACA would result in lower beneficiary coinsurance payments for inpatient hospital and skilled nursing care. As before, all of these results are conditional on the continued application of the productivity adjustments to the Medicare "market basket" payment updates.

Expenditure reductions under Part B translate directly to lower financing requirements from general revenues and beneficiary premiums, since financing is re-established annually to match program costs. Thus, in the case of Part B, the savings under the PPACA are not needed to help pay for future Part B benefit costs, and the full reduction in Federal general revenues attributable to such savings can be used to offset other Federal costs, such as those arising under the PPACA coverage expansions.

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